

Offtaker of Last Resort Consultation Event

09:00 – 13:00, 3 March 2014

BIS Conference Centre, 1 Victoria Street, London

Table Discussion One: Generator Eligibility, Offtaker Identity, Access and Allocation

Questions:

- 1) How do generators and lenders get comfort over OLR payment flows?
- 2) Does the high-level allocation timeline for Backstop PPAs look appropriate for generators and suppliers?
- 3) What information should Generators be asked to provide when applying to access the OLR, to help inform Offtakers' bids?

1) How do generators and lenders get comfort over OLR payment flows?

- Many attendees felt that a minimum offtaker credit rating, or letter of credit from, a -BBB entity would be necessary. They added that mutualisation provisions could only be a back-up for this and should not be relied on too heavily, as it will ultimately be paid for by consumers. Attendees pointed out that if Offtakers are required to post a Letter of Credit then they will factor the cost of this into their bids.
- Attendees highlighted that lenders will want clear information on the payment timetable for any payments as this will be important for debt-sizing.
- There was a lack of certainty over how long a period any compensation would need to cover, whether 6 weeks was enough (being the time it takes to reallocate the Backstop PPA Contract to another supplier) or whether it would need to be longer.
- Attendees emphasised that mutualisation would need to be spread across all licensed suppliers.
- Attendees warned against relying only on the 6 week re-allocation period, as this could lead to continuous cycles of reallocation in some cases.
- Attendees highlighted the need to keep the terms of the BPPA as simple as possible.

- Attendees suggested Offtakers be asked to provide their credit facilities at the time of bidding, so as to prevent overly optimistic bidding seeing as the costs of providing such credit facilities will need to be factored into their bids.
- Attendees asked for information on what would happen if a credit worthy supplier becomes insolvent.
- Attendees flagged that, if the market becomes so unfavourable that all eligible Generators are looking to enter into the OLR, then this is likely to impact on all suppliers' credit ratings, so the credit rating requirements would need to be able to accommodate that.
- Attendees highlighted that suppliers don't typically need to provide credit support for a one-year PPA at present.

2) Does the high-level allocation timeline for Backstop PPAs look appropriate for generators and suppliers?

- The two-week 'no-regrets' period was welcomed, as it would alert suppliers and allow generators a chance to get a better PPA in the open market.
- Several attendees felt that having a 6 month break clause in the Backstop PPA contract would be unhedgable for Offtakers seeking to price bids for baseload technologies, as Offtakers would be pricing the contract as if it were a 12 month one. They explained that the issue was especially significant for baseload technologies because the baseload reference price is fixed around 6 months in advance.
- Attendees queried whether the 6 week timeline would be operationally challenging. DECC confirmed that they were discussing its practicalities with key stakeholders including Ofgem and Elexon.
- Attendees also asked how poised Offtakers would be to submit bids as quickly as is required.
- Attendees asked for information on what would happen if Backstop PPAs are not allocated within 6 weeks.

3) What information should Generators be asked to provide when applying to access the OLR, to help inform Offtakers' bids?

- Attendees confirmed that they would like to see information on Generators' CfDs and on their reliability since entering into the CfD.
- Attendees also stated that they would like to see details of Generators' expected outages and forecast output.
- Several attendees said they would ideally like daily updates on the Generators' forecasted output and planned outages.
- Attendees also said they would like to see details of the CfD Counterparty Body's anti money laundering checks.

Table Discussion Two: Contract Terms and Conditions and Scheme Review

Questions:

- 1) Is SCADA an appropriate requirement for all Generators? Can minimum requirements be set?
- 2) Are the timings for Meter Registration appropriate? Is it necessary to include these steps in the contract or rely on 'as soon as reasonably practicable'?
- 3) Are tolerance limits appropriate for unplanned outages? If so, at what level?
- 4) Is the risk of exposure to cash-out the best incentive to ensure the generator provides good information on outages?
- 5) What do you see as the best way to protect generators from very negative prices?
- 6) Do Offtakers see value in being able to curtail the generator (and provide compensation)?
- 7) Would Offtakers find intra-day curtailment useful? Would Generators have concerns?
- 8) Is it appropriate for Government to ask generators for details of their initial PPA?

Is SCADA an appropriate requirement for all Generators? Can minimum requirements be set?

- Several attendees stated that SCADA read-only access would be an appropriate minimum requirement for Generators to offer Offtakers. Write-on permission effectively gives Offtakers control over generation, meaning that the arrangement counts as a lease and is subject to accounting treatment issues.
- It should be obligatory for Generators to provide SCADA but up to Offtakers whether they want to use it.
- However, SCADA requirements could become a barrier to entry for smaller generators if they are onerous or expensive to provide.
- The timescales for providing SCADA may also vary for different technology types / Suppliers.

Are the timings for Meter Registration appropriate? Is it necessary to include these steps in the contract or rely on 'as soon as reasonably practicable'?

- It may take longer to register meters under MPAN than under the BMU. MPANs need to be registered within a supplier's BMU and that can take time.
- Further questions are to be put to Elexon.

Are tolerance limits appropriate for unplanned outages? If so, at what level?

- Several attendees said that they did not see tolerance limits as necessary, as they are not included in standard PPAs.
- A historical overview of a Generator's output would enable Offtakers to price the potential for output variation into their bids.

Do Offtakers see value in being able to curtail the generator (and provide compensation)?

- Several attendees suggested that the Backstop PPA Contract should include incentives for the Generator to curtail, rather than leaving curtailment up to the Offtaker.
- Several attendees suggested curtailment would be a 'nice to have', rather than it being essential for the bankability of the Backstop PPA Contract. Others suggested its value would be more in future-proofing the contract.
- If Generators don't have an MPAN, their curtailment provisions may have to be subject to mutual negotiation.
- Generators that don't have a BMU may need more clarity over how they will get curtailment compensation, seeing as they won't have access to the Balancing Mechanism.
- Attendees queried why the Backstop PPA Contract needed to provide additional protection for negative pricing, considering what is already in the CfD. DECC explained that the CfD protects Generators beyond the negative strike price, to prevent them making a loss in a negative pricing scenario. The CfD does not require Generators to curtail in the event of negative pricing, so the Backstop PPA Contract may need to include this flexibility.

Is it appropriate for Government to ask generators for details of their initial PPA?

- Attendees suggested it could be more useful to know the details of a Generator's initial CfD, rather than their initial PPA.
- Attendees suggested that the obligation to provide details of your initial PPA might not provide a full picture of the state of the PPA market, seeing as this information would only come from a restricted sample of Generators who thought they might want to enter into the Offtaker of Last Resort (OLR) at some point.
- Attendees added that providing details of a Generator's initial PPA won't give an indication of how the PPA market might look if the OLR is closed to new entrants, and so will be of limited use in terms of helping policy makers decide whether to close the scheme.
- Attendees also pointed out that confidentiality agreements in bilaterally-agreed, open market PPA contracts could prevent Generators from sharing their PPA details with DECC. However, other attendees pointed out that Generators would simply need to ensure that their bilaterally agreed, open market PPAs include the right to share information with DECC if they want the option of entering into the OLR in the future.
- Attendees highlighted that any sharing of PPA information would need to be FoI exempt for commercial confidentiality reasons, just like the other EMR information provision requirements.

General Q+A Session

- Attendees asked who would be ultimately in charge of trading the power if a larger Generator is split between several Offtakers.
- Attendees suggested that complicating the Backstop PPA Contract will make the OLR more expensive for Generators to enter into (their costs of capital will rise), so the Contract should be kept as simple as possible.
- Attendees queried whether Generators would always know whether they might want to access a Backstop PPA at the start of their CfD, especially seeing as some might even choose to start out with no PPA at all.
- Attendees suggested the Scheme Review be made more streamlined, as there are now quite a few different slices of review, especially when combined with the additional EMR review requirements. They suggested that a more streamlined process would be useful in helping stakeholders know where to look to best understand risk profiles etc.
- Attendees highlighted that Direct Agreements might be hard to standardise as part of the Terms and Conditions of the Backstop PPA Contract, as there is a huge spread in the market at the moment (especially for different technology types), and Direct Agreements are usually up to large amounts of negotiation between parties.
- Attendees suggested that exposing Generators to the cash-out price may not be enough of an incentive for them to curtail their own power, if there is no indication of how large this exposure is likely to be.
- Attendees queried whether the discount price should go to the Offtaker or to some other body, seeing as it is a price that has been set by Government rather than by them and Offtakers receiving this extra money could lead to wider reputational issues.
- Attendees queried whether we could ever know that a Generator entering into the Backstop PPA could genuinely not get a PPA on the open market. DECC confirmed that we could never know for sure but that the discount price should ensure that the Backstop PPA remains a last resort.

Others

- Attendees questioned whether generators above 100MW should be eligible for the OLR, given that they are licenced generators